Greater Gwent (Torfaen) Pension Fund

Impact Investment Policy
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 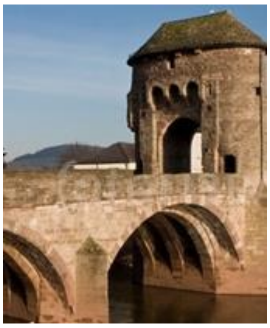   

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Introduction

In February 2022, the Department for Levelling Up, Housing and Communities (DLUHC) published its Levelling Up White Paper, setting out a plan to spread opportunity and prosperity to all parts of the UK through twelve 'levelling up missions'. The Levelling Up White Paper suggests that the Local Government Pension Scheme (LGPS) should set an ambition to invest a portion of its capital (suggested as 5% of assets under management), into 'local' projects to support the achievement of this plan.

The Pension Committee broadly supports the aspirations and objectives of the levelling up agenda and acknowledges its importance in helping to achieve the goal of increased equality of opportunity within the UK through investment in local projects offering an appropriate risk-reward proposition.

The Greater Gwent (Torfaen) Pension Fund (the Fund) maintains both an Investment Strategy Statement (ISS) and a Responsible Investment (RI) policy. The ISS outlines the Fund's core investment beliefs and objectives, including the desire of the Pension Committee to behave as a responsible investor. The RI policy defines the approach to responsible investment, including the integration of Environmental, Social and Governance (ESG) considerations into its decision-making process. One of the primary objectives of the Fund's RI policy is to strive towards allocating capital to positive impact investment opportunities that provide tangible benefits to society alongside an investment return.

The Pension Committee has a fiduciary duty to safeguard the interests of its beneficiaries by maximising investment returns within an appropriate level of risk. The objectives set out within this policy do not in any way seek to conflict with this responsibility.

What are the aims and objectives of this policy?

The purpose of this policy is for the Pension Committee to set out how the Fund will approach investment in the 'levelling up missions' via the pursuit of positive impact investment opportunities. The policy aims to provide a framework for the Fund to pursue impact investment and to outline the various parameters that will be factored into the process.

The Pension Committee's aims and objectives for this policy are to:

- explain what it means to invest impactfully and to outline the primary areas of focus in terms of delivering impact (sustainable, societal, environmental) through its investments;
- aspire to align the Fund's long-term impact-based objectives to any of the twelve 'levelling up missions;'
- align the Fund's strategy with global initiatives within the impact investment space, such as the Global Impact Investing Network ('GIIN') and the Impact Investing institute ('III');
- strive towards a strategy with sustainability at its core, with specific reference to the United Nations Sustainable Development Goals (UN SDGs);
- align the Fund's strategy with applicable laws and regulations, notably the Well-being of Future Generations Act (Wales) 2015;
- report on the impact outcomes achieved from the Fund's investment decisions;
- set out clearly how the Fund will engage with stakeholders and policy makers on its impact investment approach, and continue to learn from best practice; and
- outline the Fund's approach to collaborating with like-minded organisations to achieve social impact-based solutions.

How do we view 'Impact' investments?

Definition

The Pension Committee has not chosen to develop its own definition of impact investment. Instead, it has elected to adopt industry definitions which are considered best practice. The Global Impact Investing Network's ("GIIN")[1] definition of impact investing states that *"investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."* Impact investing covers a broad spectrum of opportunities, the vast majority of which will be categorised by the five 'Impact pillars of Place Based Impact Investing (PBII)[2]' laid out by the Impact Investing Institute ('III')[3].

In alignment with the pillars of PBII, the Fund will consider investment opportunities that help to deliver measurable economic, environmental, and societal benefits across each of the following broad areas:

1. Affordable Housing
2. Small and Medium Enterprise (SME) Finance
3. Clean Energy and Energy Efficiency
4. Infrastructure
5. Regeneration

Through this policy the Pension Committee may also consider investment opportunities in alternative areas, such as Natural Capital, so long as the outcomes of such investments contribute towards the objectives and initiatives highlighted within this policy.

Characteristics

For any potential impact investment, the Pension Committee will strive to ensure all decisions incorporate the following PBII characteristics outlined below:

I. **Intentionality -** purposefully targeting a defined social or environmental need and seeking to create a defined positive impact, whereby clear, intentional outcomes can be achieved.
II. **Defining a 'Place' -** setting a target geography, which may differ by sector. As a minimum this policy intends to deliver investment within the UK.
III. **Stakeholder Engagement -** where appropriate, pro-actively engage Fund stakeholders regarding potential investment decisions. Wherever practicable, the Fund will seek to align its efforts with locally defined objectives and priorities whilst managing any potential conflicts of interest that may rise.
IV. **Collaboration -** in the spirit of LGPS pooling, which promotes a more collaborative approach, the Fund is committed to working with like-minded investors to achieve common impact objectives at varying scales across suitable regions.

Impact investing is not social investing, and neither is it philanthropy – and the Pension Committee are keen to stress this important distinction. The objectives and beliefs set out in the Fund's ISS remain a priority and should not be undermined through this policy or its approach to impact investment.

The Pension Committee is clear that any impact investment decision must generate an acceptable financial return, with reference to the long-term actuarial assumption, reset every three years, to ensure that the Fund adheres to its fiduciary responsibilities.

[1] *The GIIN*, [2] *Section 1: What is place-based impact investing? | Impact Investing Institute*, [3]*Home | Impact Investing Institute*,

How do we define 'Local'?

One of the key aspects of DLUHC's levelling up agenda is the focus on local investment. Although not explicitly clear, the broad definition of 'local' is UK-wide investment.

The Pension Committee's definition of 'local' is UK wide. Where opportunities exist within the geographical footprint of either the Fund or across Wales then these will be considered. In all cases collaborating with specialist investment managers with relevant experience and skills will remain a core requirement.

As set out within the policy, the Fund will strive to:

- Identify opportunities broadly across the UK;
- Consider the potential to invest on a regional level (i.e., within Wales and adjacent areas such as the South-West of England) and a sub-regional level (i.e., with the Greater Gwent footprint); and
- Seek opportunities, via specialist investment managers, to achieve all of the above simultaneously.

The Pension Committee acknowledges that investment opportunities specific to any region or sub-region are likely to be far less common and potentially carry greater levels of risk. The Fund's approach will be selective and to ensure robust due diligence is conducted prior to any investment decision being made. The Fund will seek reassurance that it is not acting as "investor of last resort" and that other institutional quality investors would make such an investment on similar terms. Acting as "investor of last resort" would raise questions as to whether the investment was consistent with the Fund's fiduciary responsibilities to members and employers.

How will we deliver Impact?

<u>Types of Investment</u>

The ways in which to gain exposure to investment opportunities that have the potential to deliver impact outcomes can differ from traditional listed investments. There are three broad means of investment that the Fund could use to deliver impact investments, each of which are described in the table below:

Investment Method	Description
Direct Investment	• Direct investment into a project or business. • No investment manager overseeing and/or managing the underlying investment.
Co-Investment	• Investment alongside a qualified trusted partner, typically a third-party specialist investment manager to which the investor has already invested via a managed fund. • An opportunity to agree specific terms with the third-party specialist, including specific place-based regions or outcomes related to various impact priorities with a targeted purpose, to invest alongside (i.e., co-invest). • Any co-investment opportunity would follow an already attractive investment plan with scope for more targeted investment (by asset type or geography) where the third-party specialist is suitably incentivised alongside the investor to achieve a particular outcome. • Co-investments may arise where a specialist manager has higher concentration of a particular type or location of assets that would exceed the normal limits for a pooled fund vehicle, and hence are pursued outside the vehicle, but generally alongside it.
Third Party Managed Fund	• Most common means of investment whereby capital is managed by a third-party specialist investment manager who acts as general partner and operates/manages the investments on behalf of all investors in the fund. • Investors in third party managed funds are typically called "limited partners." • Single LGPS funds and/or pools can be limited partners in such funds. A variation on this idea is a Specially Managed Account (SMA) which is created solely for a particular investor or investor group, but where a specialist investment manager plays a similar role.

The Fund's approach will be to opt for the use of third-party managed funds to work with investment managers that have a wealth of experience and who are specialists in any particular area. Co-investments may also be used should a suitable opportunity arise, and the appropriate advice and expertise are sought to support such approach. Direct investments **will not** be pursued because of the lack of in-house specialist knowledge and resources to manage assets or businesses directly. Direct investments would also raise the question of whether the Fund were acting as "investor of last resort."

Scale

This policy is not intended to be overly prescriptive in terms of specifying limits (upper or lower) on the level of impact investments within its scope. Instead, investment commitment decisions will be taken having factored in a number of considerations, including but not limited to:

1. Ensuring the investment opportunity fits within the Fund's agreed Strategic Asset Allocation;
2. Achieving a sufficient level of exposure to a particular investment that enables the Fund to have its own voice and engage proactively with the third-party specialist or specific opportunity. This can be achieved via the opportunity of an advisory board seat for example, allowing representation at key stages of the investment period;
3. An investment that can achieve an attractive fee discount;
4. Scope to negotiate specific terms of investment (where possible) that are more favourable to the Fund as a key investor.

All investment decisions regarding scale of investment will be in the context of the size and positioning of the Fund relative to its allocation requirements.

Risk and Return Objectives

This policy seeks to ensure that the level of investment risk is commensurate with the expected financial return. This is to ensure that the Pension Committee adheres to its fiduciary responsibility which is to act in the best interests of its beneficiaries. All investments in scope of this policy will be considered on a case-by-case basis and will only be selected if the financial return of a given opportunity is expected, as a minimum, to exceed the actuarial discount rate provided by the Fund's actuary.

Allocation

The Strategic Asset Allocation (SAA) is set by the Pension Committee as part of the investment strategy setting process and includes allocations to Infrastructure, Real Estate and Private Credit. This policy does not stipulate a dedicated impact allocation and is intended to be broad, not constraining allocations to specific sub-requirements that would inhibit the ability to deliver on objectives.

The Fund will be flexible in its approach to impact investment, recognising that some investments may contain a mix of assets, of which only part will represent "impact." In such cases, the Fund intends to take a look-through approach to the underlying assets within an investment fund or portfolio rather than characterise the whole allocation as capable of delivering positive impact.

The Pension Committee believes that the Fund's investment strategy is sufficiently placed to align investment efforts to the aspirations of levelling up over the long-term.

Implementation

Implementation of this policy will be led by officers as guided by the Fund's independent advisors and in accordance with its SAA.

The long-term nature of impact investment, both in terms of investment period and realisation of outcomes, means that meaningful results may take many years to materialise. The Pension Committee recognises the importance of an evergreen approach, with the need to continue to structure new capital to investment opportunities in order to grow or preserve a certain level of exposure. As investments are sold or otherwise exited, investment capital will need to be recycled into new opportunities that continue to innovate and support broader priorities and changing needs.

Expertise

The Fund will ensure that it uses the expertise of its own independent advisors, external advisors supporting the WPP, as well as third-party specialists who are capable of providing the appropriate level of diligence, advice, and guidance regarding any particular investment decision. The Pension Committee is clear that delivery of this policy must remain consistent with their fiduciary responsibilities and would not be prepared to deviate from this approach, regardless of investment opportunity.

LGPS Collaboration

The Pension Committee is keen to pursue investment opportunities in collaboration with other like-minded investors, particularly where these opportunities offer local impact benefits to parts of the UK, regions, or sub-regions with a particular need. The Fund will collaborate with the WPP as the LGPS pool in Wales, as well as other LGPS pools where opportunities are attractive. Where scale, or lack thereof, is a particular barrier to entry within an attractive investment opportunity, the Pension Committee supports the Fund investing alongside other LGPS funds whose investment objectives are well aligned.

How will we report on Impact Investments?

The Pension Committee recognises the importance of reporting on the performance of all investments, especially those pertaining to deliver environmental and/or socioeconomic impact. As the Fund continues to establish its impact investment approach, so will the quality and development of its reporting. In order to ensure this remains tailored to local needs, officers will work closely with the WPP, its appointed investment managers as well as external advisors who can support the Fund's efforts in this regard.

Stakeholder Engagement

The nature of impact investment, particularly on a UK, regional or even sub-regional basis, has a distinct set of considerations from an engagement perspective. Through this policy the Pension Committee is committed to:

1. Regular engagement with Fund stakeholders on at least an annual basis;
2. Specific or targeted engagement with affected stakeholders where a potential investment decision has local implications on its members or beneficiaries;
3. Regularly reporting on progress in delivering impact investments within its portfolio consistent with best practice and requirements (i.e., via the Pension Fund Annual Report);
4. At the appropriate time, commissioning an independent review of the Fund's investments with the aim of demonstrating the impact benefits delivered.

The Pension Committee recognises the need for more sophisticated stakeholder engagement and that this has intensified in recent years, with greater scrutiny surrounding Fund investments from regulators, campaign groups and scheme members. For individual projects or investments, the Pension Committee will remain mindful of the importance of considering all relevant stakeholders and how an investment can maximise local benefits and mitigate any negative risks. The Fund will also strive to ensure that any potential conflicts of interest that arise are managed effectively.

The Fund will also take particular care to solicit the views and ideas of underrepresented groups and minorities during any sub-regional investments.

Monitoring of this policy

This policy will be monitored on an on-going basis and will at the very least be subject to extensive review triennially in conjunction with the Fund's Investment Strategy Statement.

Appendix 1 – Frequently Asked Questions (FAQs)

Who is responsible for investment decision-making?
The Pension Committee sets the investment strategy in accordance with LGPS regulations and its fiduciary responsibility. The Fund's officers will work with likeminded investors, including the WPP and specialist investment managers, to identify any suitable impact investment opportunities consistent with the Impact Investment policy. In recognising the need for the Fund to be nimble and responsive to potential opportunities, the Pension Committee has agreed to delegate certain investment decisions to the Section 151 Officer and Head of Pensions, in consultation with the Chair, up to a maximum value of 1% of Fund AuM. For all investment opportunities exceeding this value the Pension Committee will formally consider these at their quarterly meetings. In all instances progress in relation to this policy will be frequently reported back and include details of any investments made during the period. All impact investment opportunities will be subject to rigorous due diligence from the Fund's professional investment advisors.

What is the typical size of investment that GGTPF will consider?
The Fund will not be overly prescriptive in terms of setting a minimum or maximum investment position but will instead consider the degree of influence that can be achieved as a result of such investment. However, typical investment positions will be no smaller than tens of millions as a means of pursuing sufficiently material opportunities in order to deliver on the investment strategy. Consideration may be given on a case-by-case basis to selective co-investment opportunities which meet the objectives of this policy.

How will the Pension Fund adhere to pension reform/LGPS pooling consultation proposals?
Pension reform proposals are a statement of intent by the Government and not a mandatory requirement on the LGPS. However, the Pension Committee as the decision-making body supports the high-level principles of local impact investment and this policy sets out how the Fund might achieve this.

What is the definition of 'local'?
The Pension Committee's definition of 'local' is UK wide. Where opportunities exist within the region or sub-region of the Fund's geographical footprint and meets the requirements set out within the policy then these will be considered.

Will the Pension Fund support investment in local initiatives and regeneration efforts?
The objectives of the Impact Investment policy are to invest in opportunities that that are intent on generating positive environmental and socioeconomic impact with a strong financial return throughout the UK. The Pension Committee believe that if the outcomes of this policy are successful then there will be an indirect benefit to regeneration efforts throughout the UK. However, the Fund will invest via specialist investment managers and the locality of such investments will not be determined by the Pension Committee or Fund officers.

Will the Pension Fund compromise on key criteria in its approach to local impact investments?
No. The Fund has a fiduciary duty to safeguard the interests of its beneficiaries by maximising investment returns within an appropriate level of risk. The objectives set out within this policy do not in any way seek to compromise this responsibility. The objectives and beliefs set out in the Fund's ISS remain a priority and will not be undermined through this policy or the Fund's approach to impact investment.

Will the Pension Fund make a Net Zero commitment?
The Pension Committee is keen to pledge a Net-Zero commitment at the right time which will set out a pathway to decarbonising scheme assets. The belief is that investment in impact focused opportunities is essential to supporting efforts in achieving such a commitment.

Will the Pension Fund invest directly into certain projects?
No. Direct investments **will not** be pursued due to a lack of in-house specialist knowledge and resources to manage assets or businesses directly.

Will the Pension Fund collaborate with the WPP and other like-minded Investors?
Yes. The Fund will collaborate with the WPP as the LGPS pool in Wales, as well as LGPS funds, pools, and other institutional investors where opportunities are attractive.